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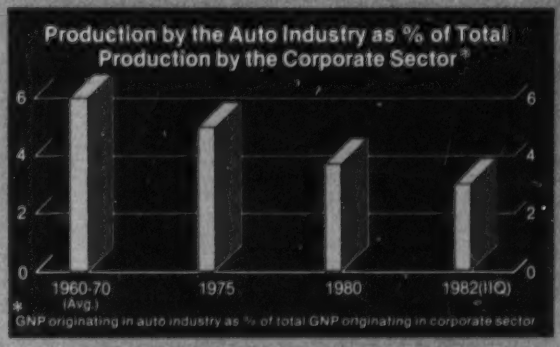
The Conference Board

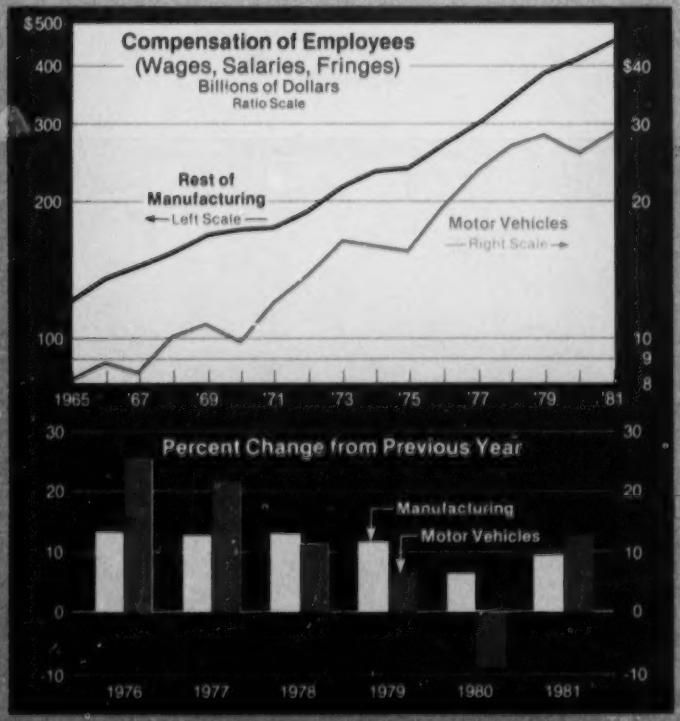
The Automobile Industry in Transition

Economic Road Maps
No. 1938 - 1939

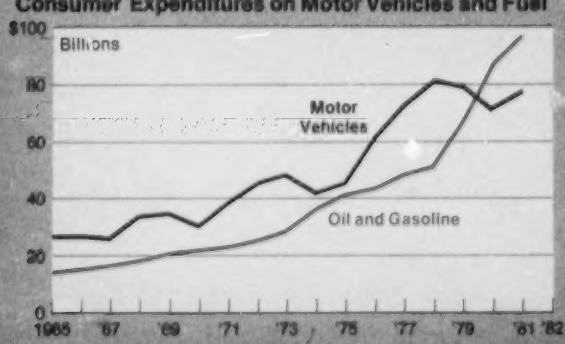
November, 1982

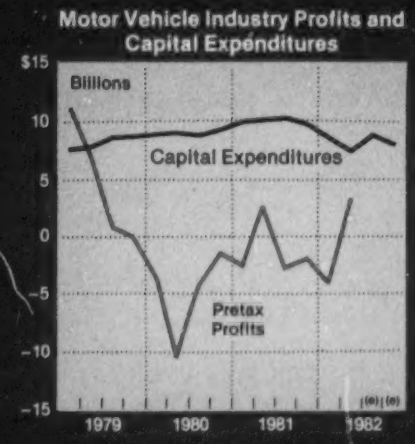
Over 70% of the more than 37 million motor vehicles produced annually around the world come from just five countries—the United States, Japan, Germany, France and Italy. In each case, the auto industry represents an important segment of the country's manufacturing sector. In recent years, the fight against inflation waged by most of these countries has led to restrictive policies and high interest rates that have dampened consumer demand—especially for big-ticket durable goods like cars. Moreover, the oil embargo of 1973-1974 and the Iranian crisis of 1979 led to consumer demand for smaller, more fuel-efficient cars, especially in the United States, where until recently the large car was the standard. Recent years have thus been a period of considerable turmoil and adjustment in the world auto industry.

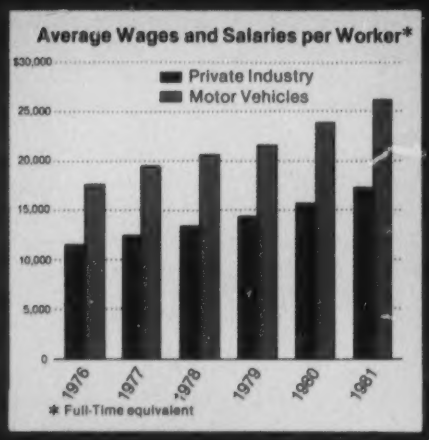


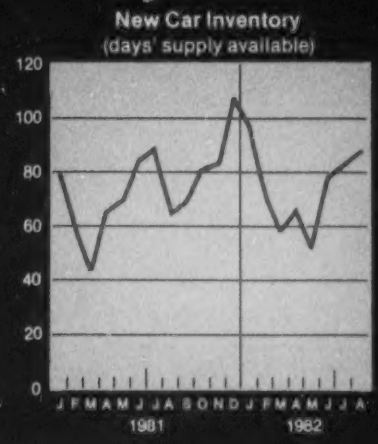


The sudden shift in consumer preference required a massive realignment by the automobile producers (especially in the United States). The U.S. industry undertook to produce a new generation of cars—small, fuel-efficient, and highly engineered, while also featuring improved emission controls and safety standards. The task of raising the necessary capital was particularly hard at a time of high interest rates and declining consumer demand, but the need to proceed with a highly automated production system was pressing. Thus, despite aggregate losses of $5 billion and $1 billion in 1980 and 1981, respectively, the auto makers' capital expenditures ran close to $10 billion annually during this period.



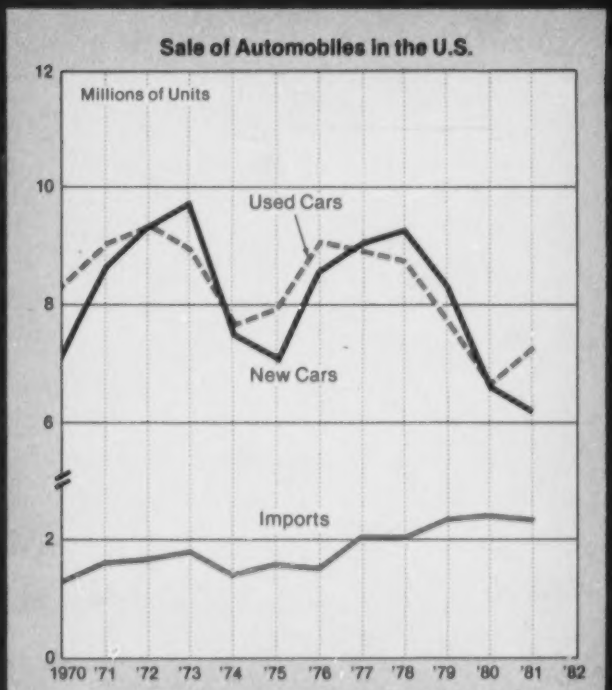


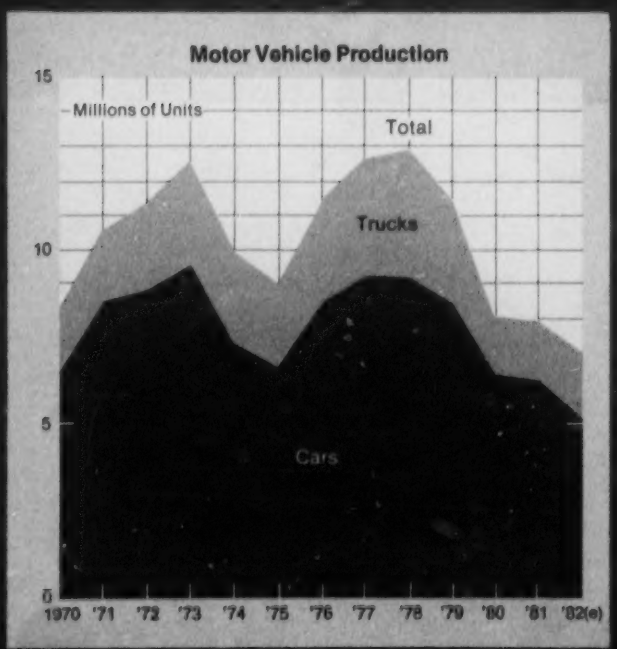


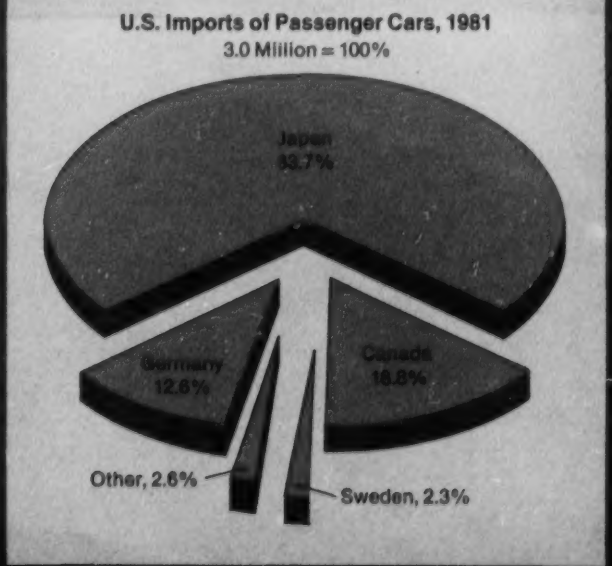


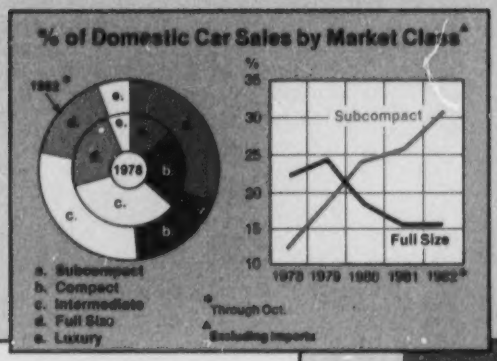
U.S. motor vehicle output peaked in 1978 with 12.9 million cars and trucks produced. In 1981, it was only 7.9 million, the lowest level since 1960; production this year is not expected to top 7 million. In 1960, the United States accounted for half of world production of motor vehicles; by 1981, its share had shrunk to 20 percent. The recession brought a decline in production, which, in turn, severely affected employment in the auto industry: 300,000 jobs were lost between the first quarter of 1979 and the third quarter of 1982. Japan, which produced less than a half million motor vehicles in 1960, has now become the world's largest manufacturer with 11.2 million in 1981—over half of which are exported. The bulk of U.S. exports are to Canada.

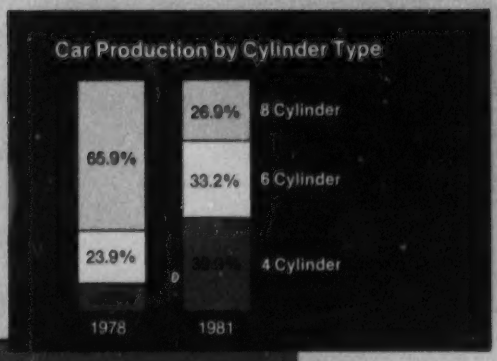
Sales of domestically produced passenger cars have been declining during the past 4 years; some 6.2 million new cars were sold in the United States last year—over 3 million less than in 1978, or a decline of one third. Imports, on the other hand, held up very

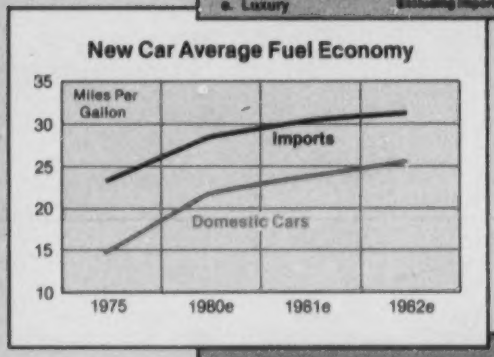


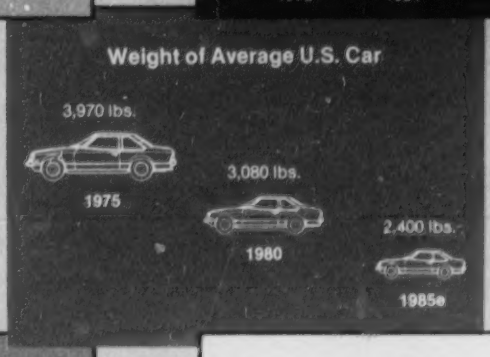


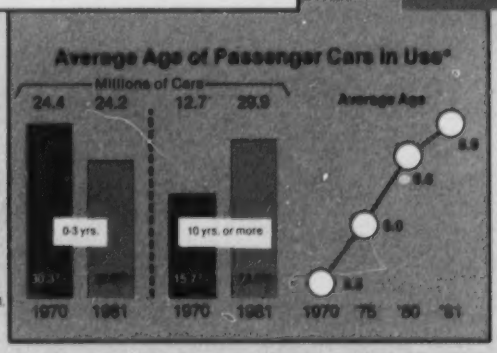


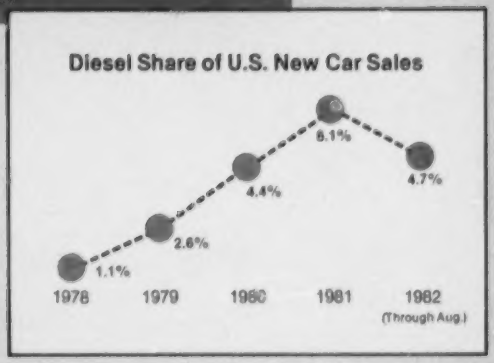




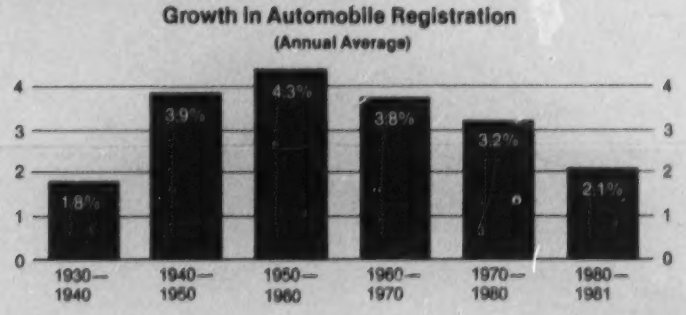


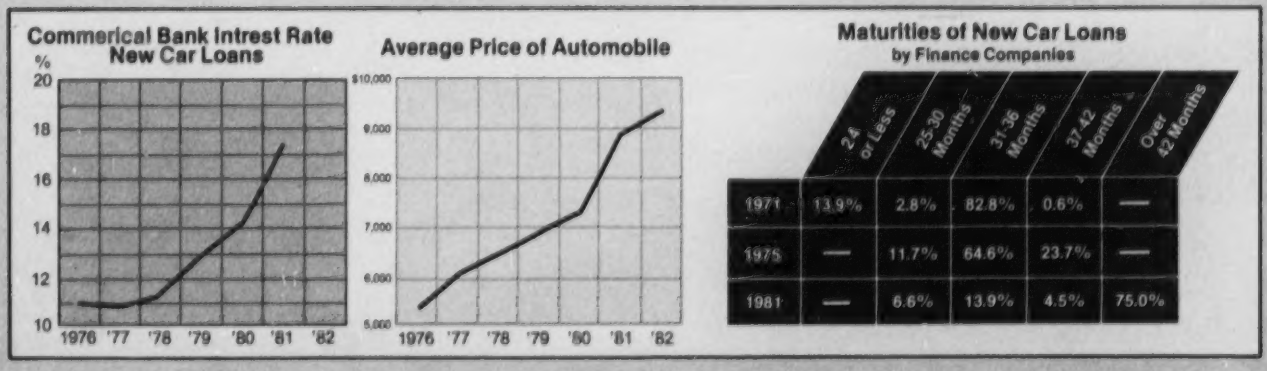


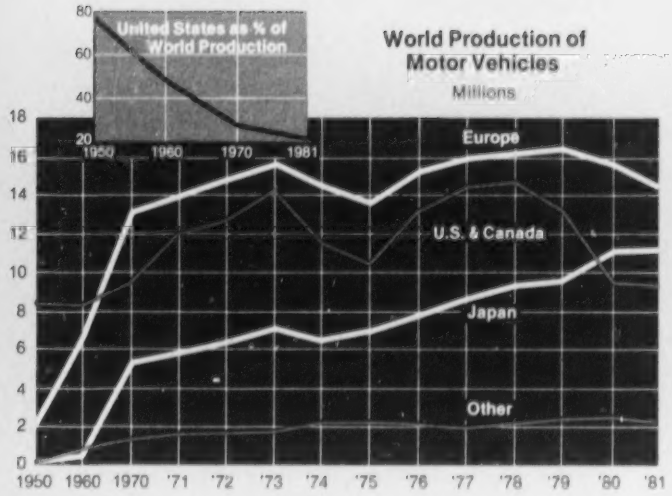


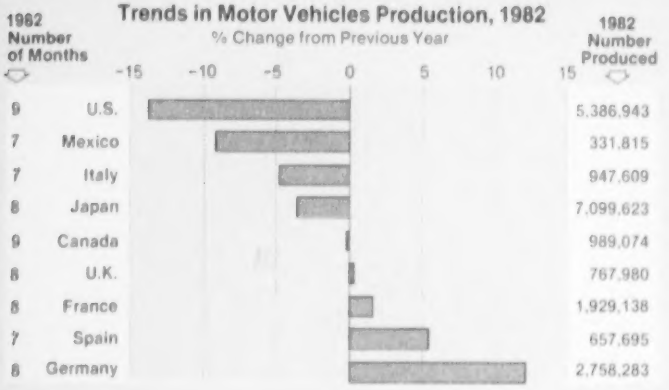


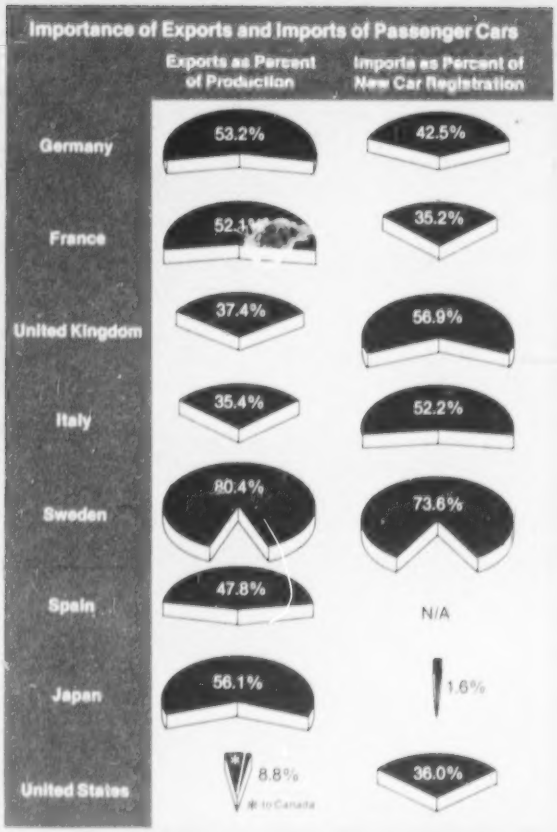
ource: R.L. Polk & Co. Reproductions Prohibited.

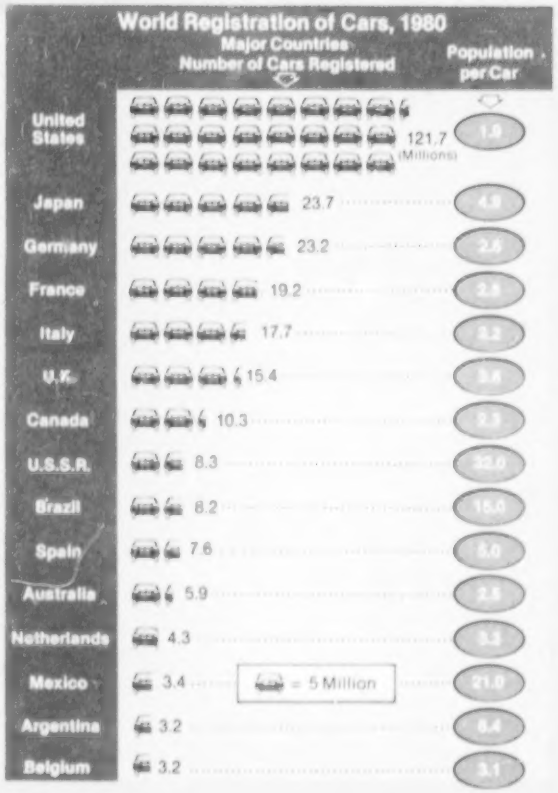









Importance of Exports and Imports of Passenger Cars
Exports as Percent of Production
Imports as Percent of New Car Registration
Germany 53.2% 42.5%
France 52.1% 35.2%
United Kingdom 37.4% 56.9%
Italy 35.4% 52.2%
Sweden 80.4% 73.6%
Spain 47.8% N/A
Japan 56.1% 1.6%
United States 8.8% * to Canada 36.0%



well; 2.3 million new imported cars were sold in the United States in 1981—an increase of 16% from 1978. Of the major foreign suppliers, Germany exported over 370,000 passenger cars to the United States—about the same as in 1965. The big winner has been Japan—from 25,000 in 1965 to 2 million in 1981.

The changing mix of the automobile market is illustrated on page three of this report. There was a dramatic rise in the share of subcompact model cars sold—from 13% in 1978 to 27% last year, and still rising in 1982 to 31 percent. The share of 8-cylinder cars, which dominated the market only four years ago, has declined to 27%, and the fuel economy of domestically produced cars continues to rise, although still outperformed by imports. The rapid aging of cars on the road bodes well for future sales with a potentially large replacement market.

The United States remains the leader in car population, accounting for 38% of the total 321 million cars on the road in 1980. It is also the most mobile society, with two persons per car.

Eva Culen

Sources: U.S. Departments of Commerce and Labor; Motor Vehicle Manufacturers Association; Ward's Communications, Inc.; R. L. Polk & Co.; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Chief Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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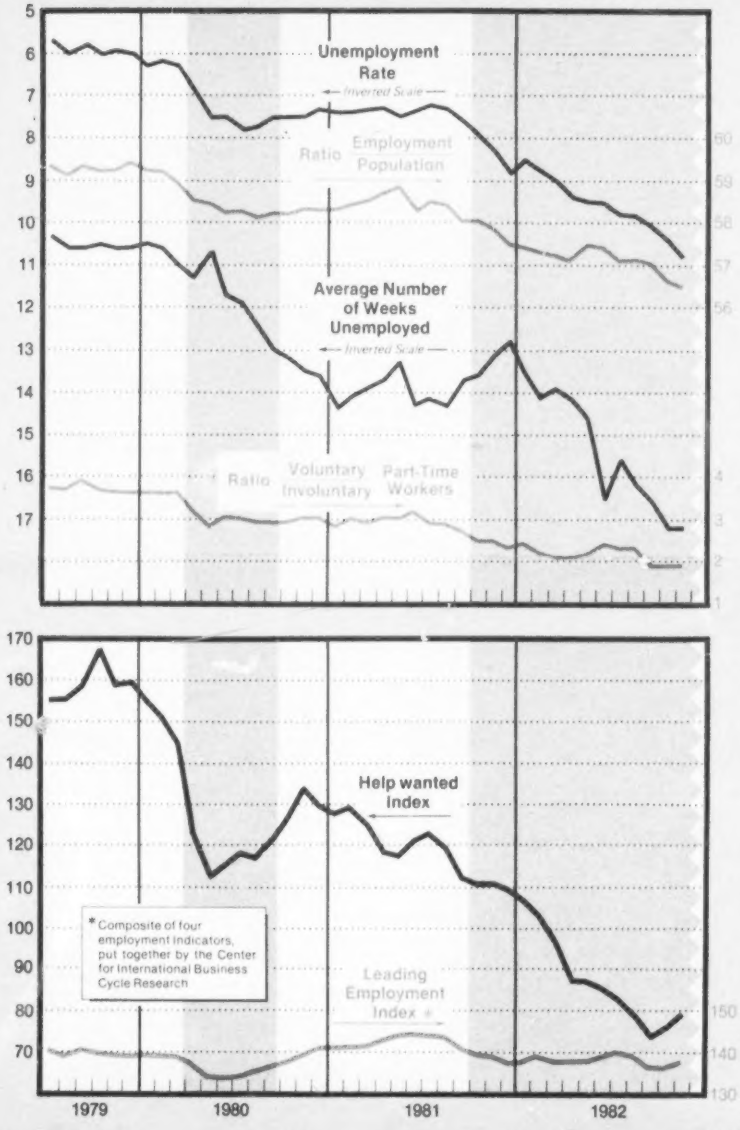
The Conference Board

Unemployment: A Perspective on Recession

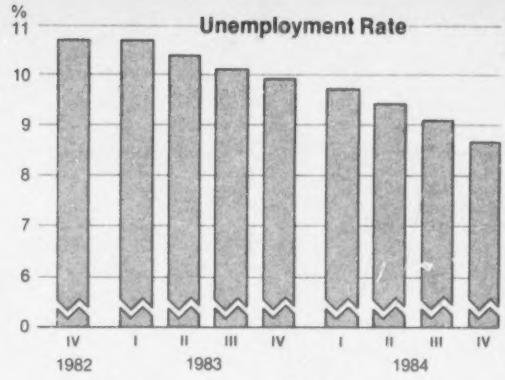
Economic Road Maps
No. 1940-1941
December, 1982

Unemployment is one of the two issues that dominate economic debate; the other is inflation. Most people do not realize, or do not pay enough attention to, the fact that the unemployed are a very varied group. For some, such as those chronically out of work or recent entrants into the labor force, being unemployed may be related more to individual circumstances than to the overall economy. For others, such as the recently laid off, the overriding factor is the state of the economy. Policy proposals aimed at reducing joblessness for one group may do little to improve conditions for others.

Tracking the Labor Market Over the Last Two Recessions



Unemployment Rate

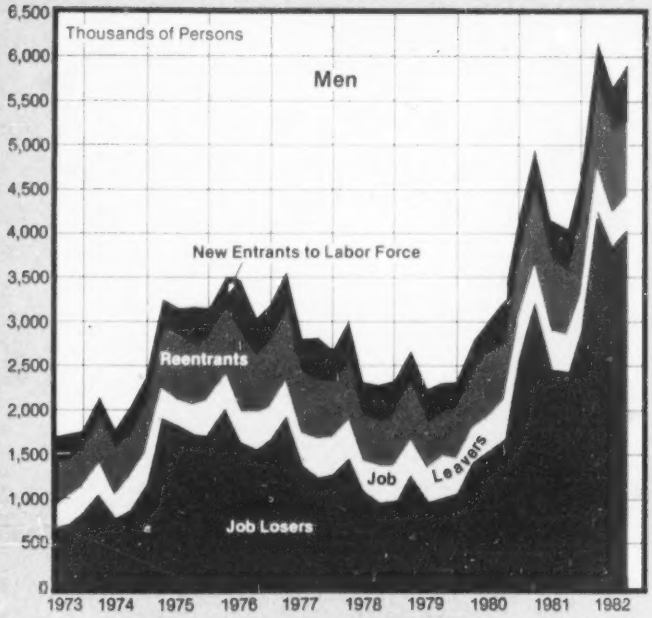


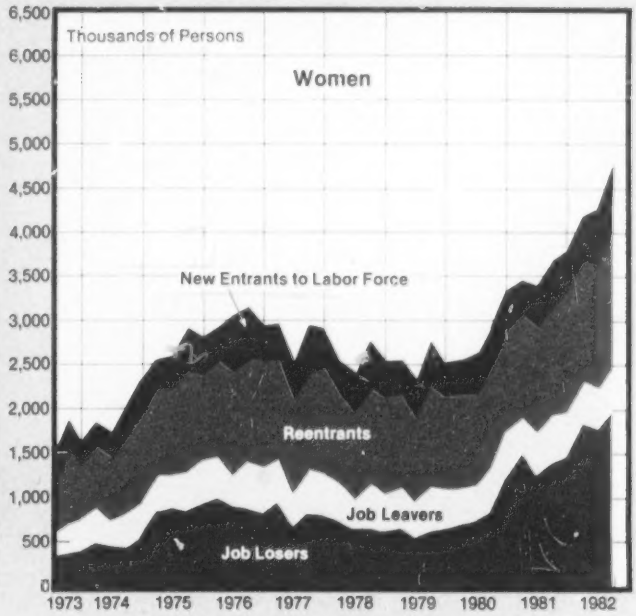
Median of eight forecasts, Conference Board's Statistical Bulletin.

The national unemployment rate was 5.7% in July, 1979, which is taken here as a point of reference before the steep rise in unemployment began. It had reached 10.8% by November, 1982. Although it is anticipated to begin improving in the first half of 1983, it will probably remain very high throughout 1983 and 1984. The consensus forecast suggests that the unemployment rate may fall no lower than 8 1/2 or 9% by the end of 1984. Joblessness, then, not only is currently at a 40-year high, but it will be persistently very high for some time.

The pool of unemployed is a constantly changing group of people. Some leave home or school to look for work while others go back to school, return to home duties, retire or become too ill or discouraged to continue their job search. A difference between the number starting their search and the number discontinuing can result in a change in the unemployment rate that is not directly related to changes in economic activity. Moreover, only a portion of all job seekers are unemployed: Quite a few people may be looking for

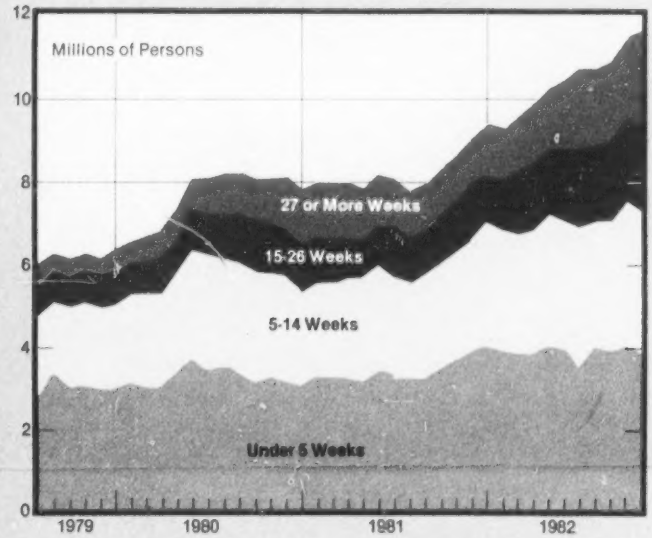
Unemployed Job Seekers by Reason for Unemployment





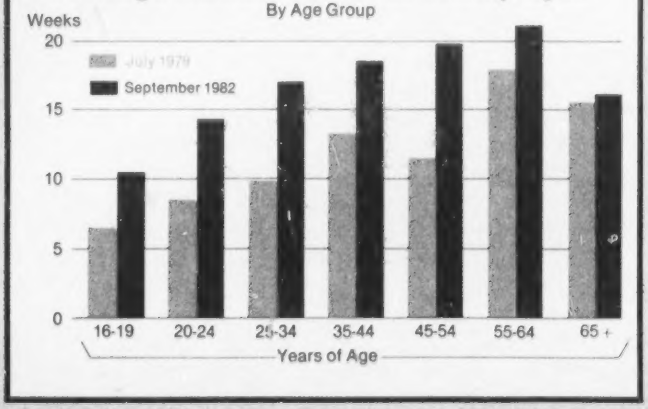
Unemployment by Duration

Number of Weeks Unemployed



Average Number of Weeks Unemployed

By Age Group

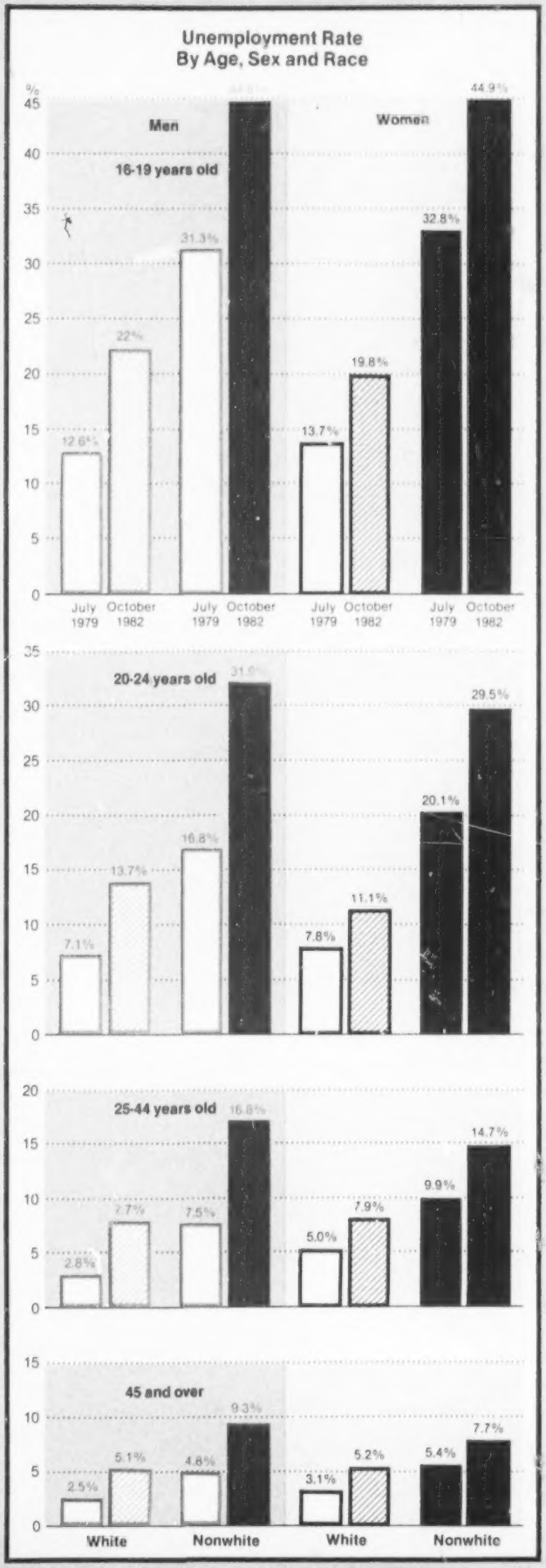


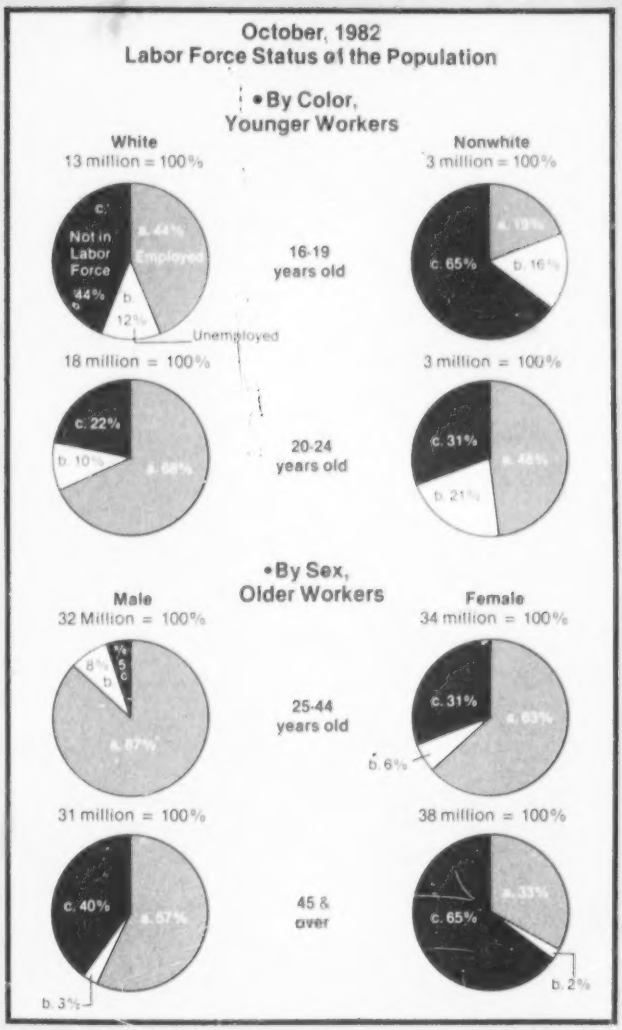
a new job while still working at the old one. On the other hand, surveys show that about one worker in four is working at a job found within the previous 12 months. The classification of the population into employed, unemployed and not in the labor force is convenient, but it is important to note that people can and do move between these categories frequently and for reasons not directly related to the state of the economy.

In general, younger people are out of work more often than older people but for shorter periods of time; the young are thus more likely to be looking for work than older workers. Their problem is not so much finding work but finding a job to their satisfaction. Older people tend to be unemployed less frequently. But when thay are out of work, they spend a longer period looking for a new job.

Unemployment rates for male teenagers tend to be similar to rates for female teenagers. The same is true, but to a lesser extent, for men and women 45 or older. But in the age groups 20 to 44, men have considerably lower unemployment rates than do women. The biggest single category of unemployed men is those who have lost jobs either for personal or business reasons. Among women, the largest category is reentrants to the labor force—that is, people who worked, left the labor force (most commonly to tend to home responsibilities), and have begun a new job search. The tendency of women to move in and out of the labor force more frequently than men results in a somewhat higher unemployment rate for women in general.

Unemployment rates are lower for whites than for nonwhites in all age groups. When the overall rate was 5.7% in July, 1979, the rate was 12.6% for white male teenagers but 31.3% for nonwhite male teenagers. In fact, high job turnover and frequent spells of joblessness continue into the adult working life of many nonwhites. The unemployment rate for white males



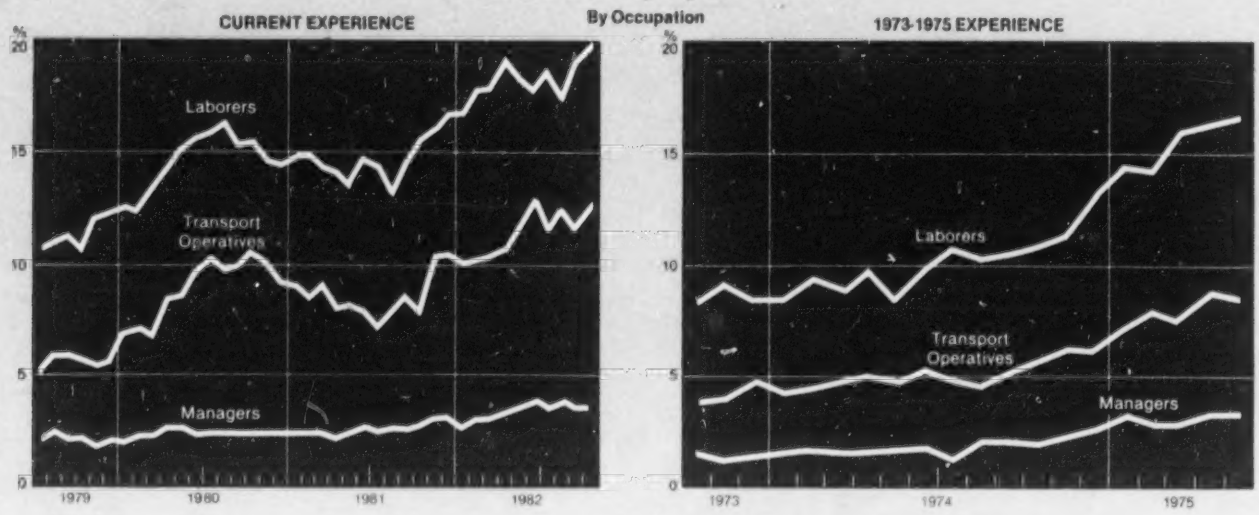


aged 20 to 24, was 7.1% in July, 1979, but it was 16.8% for nonwhite males of the same age.

According to the monthly Bureau of Labor Statistics surveys, the average number of people working in a given month in 1982 was 99 million, while 11 million were unemployed; the average labor force was thus 110 million. On average, 62 million people of working age (16 and over) were not working or actively jobseeking, and thus not counted in the labor force. However, some people were employed at one time during the year and unemployed or even out of the labor force at some other time in the year. Hence, while an average of 110 million were in the labor force at any given time, a total of about 121 million participated at *some time* during the year. Likewise, while the average number of unemployed was 11 million, a total of 27 or 28 million experienced *some* unemployment in 1982.

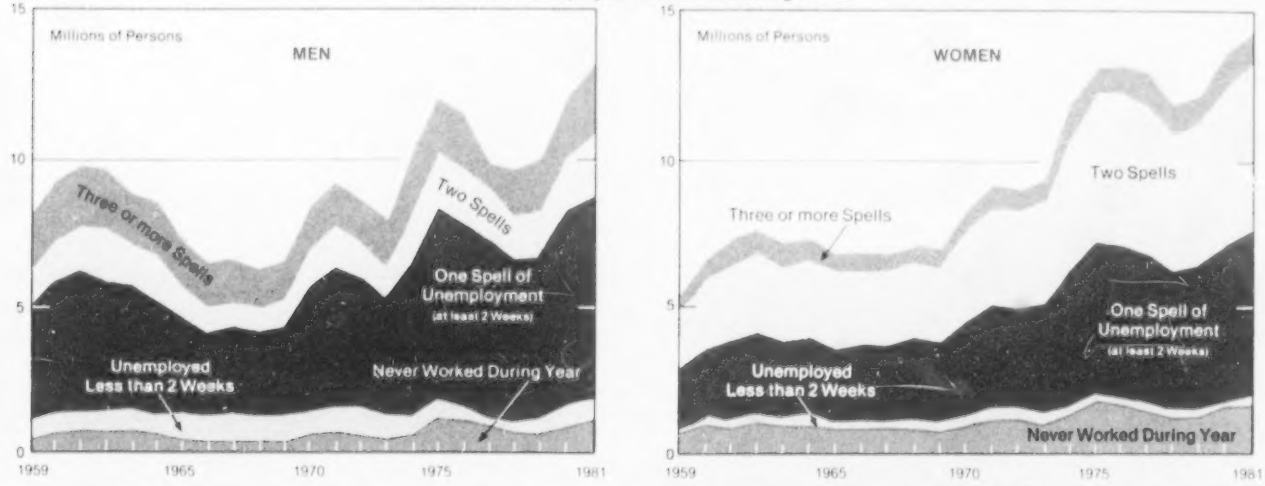
There were a little more than 6 million people out of work in July, 1979: About 1.8 million were teenagers; 1.4 million were 20 to 24 years old; 2 million were 25 to 44; and not quite a million were 45 or older. The number of unemployed in October, 1982, was 4.7 million greater than in July, 1979. Teenagers accounted for very little of that increase. Just about one million of the increase was in the 20 to 24 year group; 2.8 million were in the 25 to 44 year

Selected Unemployment Rates



The Extent of Unemployment

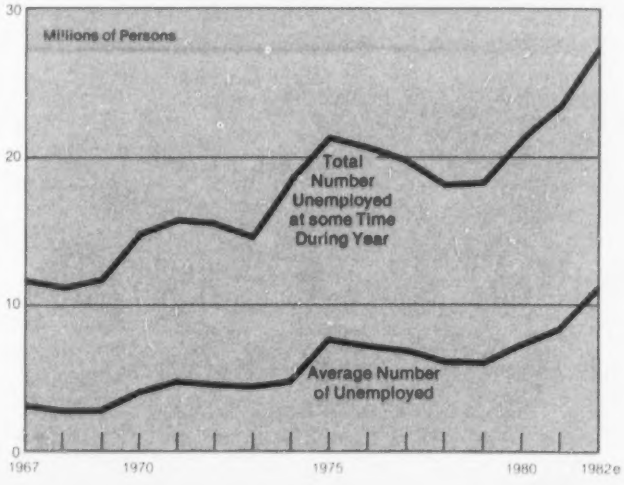
All Persons Unemployed at Some Time During the Year



group; and about 800,000 were 45 or older. Both in absolute and percentage terms, adult white men have been most affected by the 1979-1982 slowdown of the economy—in fact, a higher proportion of men than women are out of work at the moment in contrast to the general pattern in which the women's rate is higher. This last point is consistent with the very severe increases in unemployment rates for predominantly male occupations such as laborers and transport operatives (truck drivers, etc.). In fact, unemployment rates in those categories not only are the highest among all occupational groups but are substantially higher in this latest downturn than in the very severe 1974-1975 recession.

Ken Goldstein

Sources: Bureau of Labor Statistics; The Conference Board.



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Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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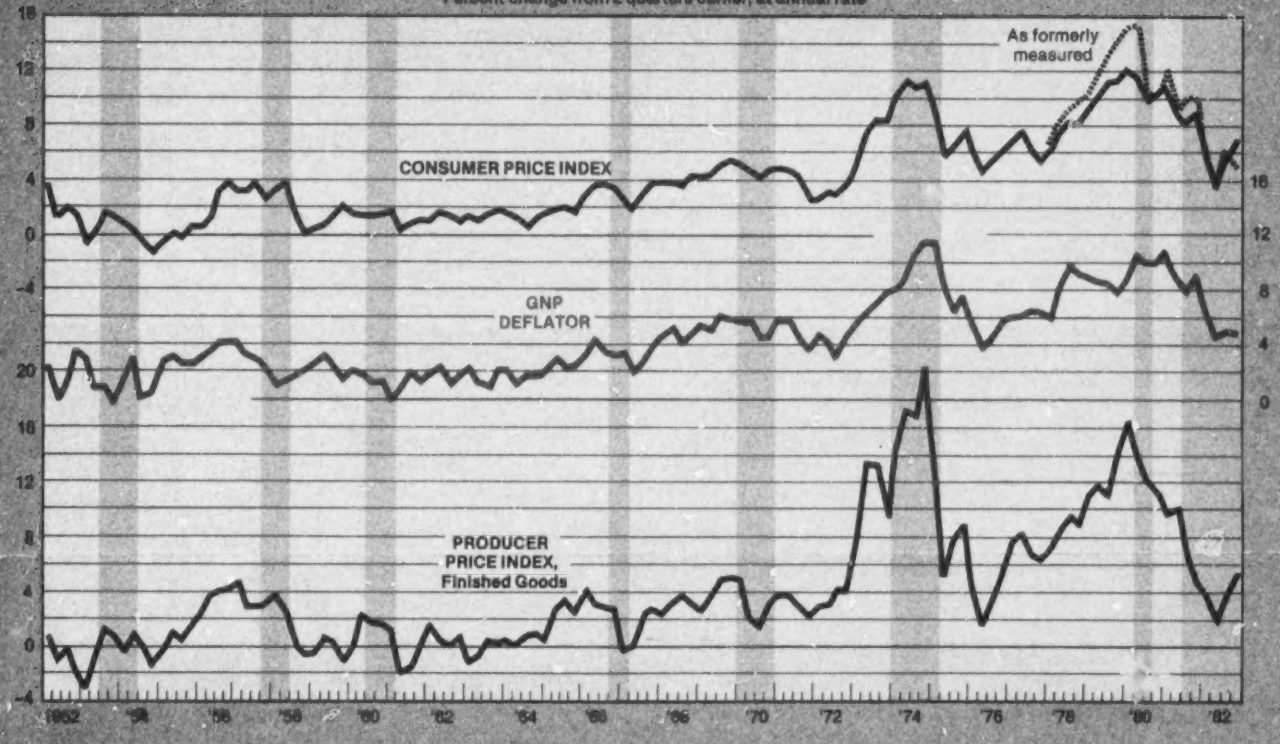
The Inflation Situation

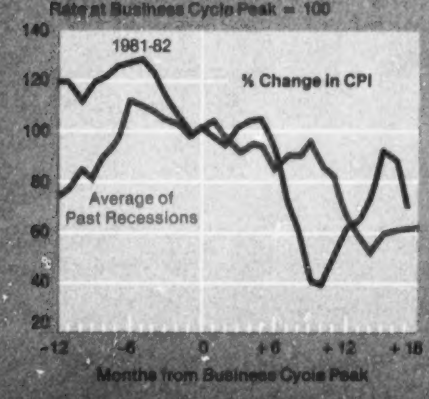
Economic Road Maps
No. 1944
February, 1983

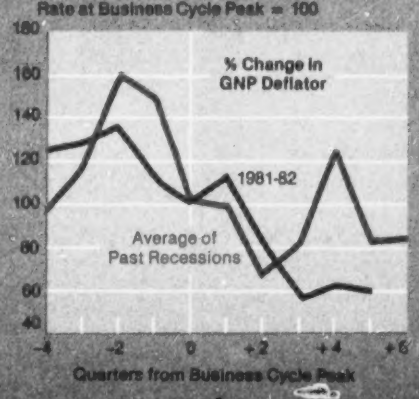
Inflation is a broadly diffused increase in the price level. One key inflation measure is the GNP price deflator, which reflects the price behavior of the entire spectrum of goods and services turned out by the economy. Its rise slowed from an annual rate of about 10% in late 1980 and early 1981 to under 5% in the past three quarters. The consumer price index (CPI), which measures the price behavior of a fixed "basket" of consumer goods and services, was rising at 12% annually in early 1980 and at somewhat over 5% in recent quarters. As of 1983, the CPI is measuring homeownership cost by estimating the owners' shelter cost—that is, what they would pay if they were renting. Formerly, the CPI measured the capital cost of buying a house, and escalating home prices and interest rates gave the measure an upward bias. The historical CPI data charted here are on the new basis, but the path of the CPI as it was actually published during the past five years is also shown.

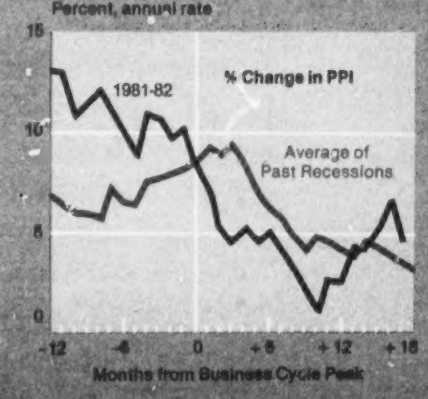
Three Measures of Inflation

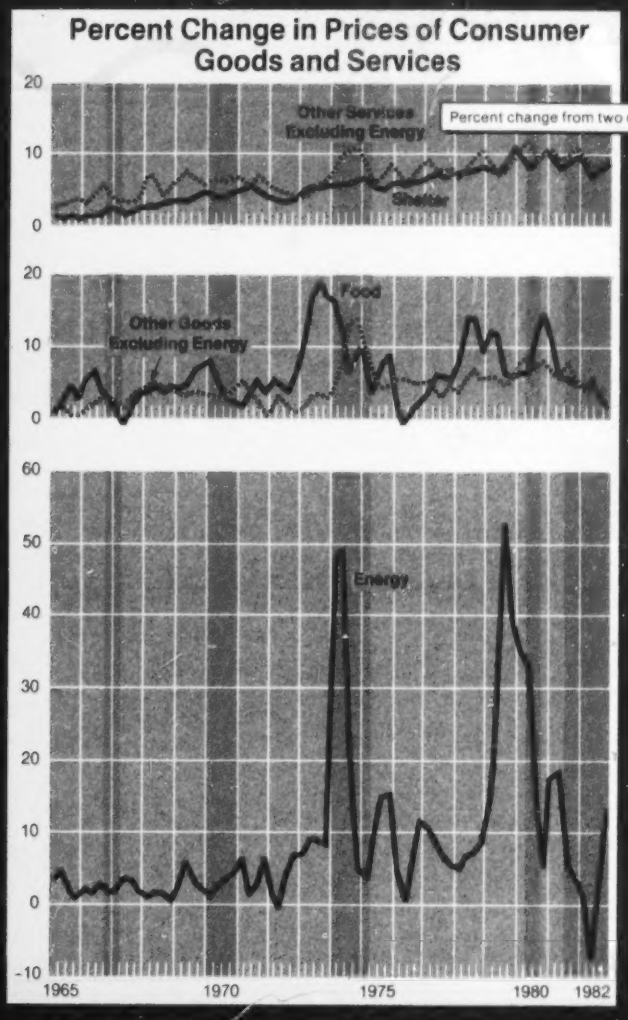
Percent change from 2 quarters earlier, at annual rate

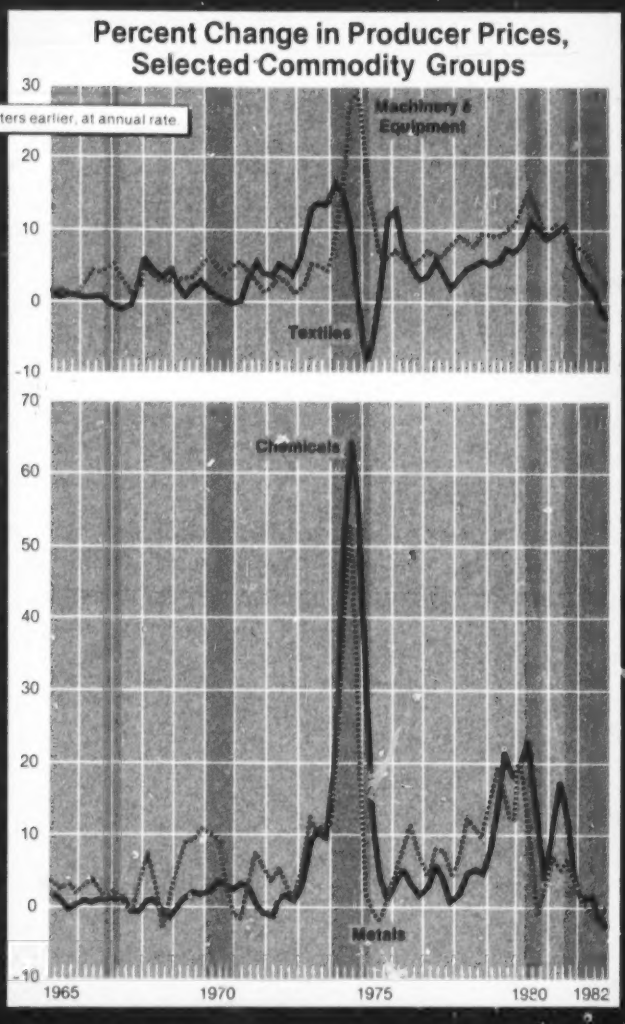





Rate at Business Cycle Peak = 100
% Change in GNP Deflator
1981-82
Average of Past Recessions
Quarters from Business Cycle Peak



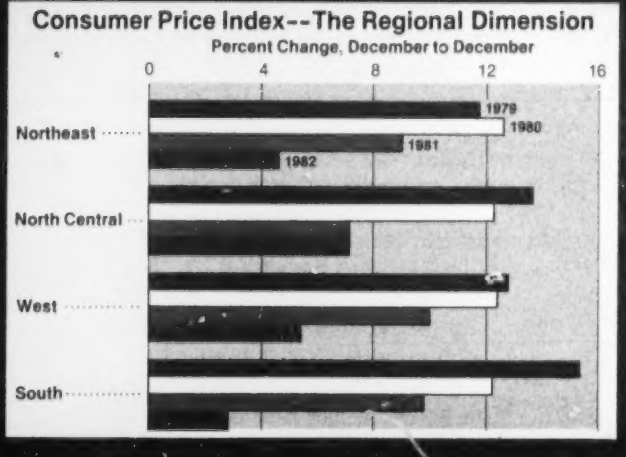


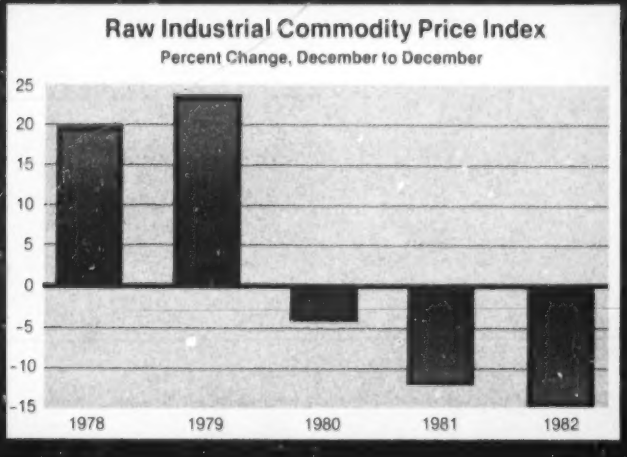


While the past year has seen moderation in the price advance for most major consumer spending categories, the deceleration has been sharper for goods than for services. This reflects the fact that production and demand in goods markets are usually more sensitive to the business cycle than are production of, and demand for, services. By far, the most volatile markets are those for industrial commodities.

Lora S. Collins

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; The Conference Board.





ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Chief Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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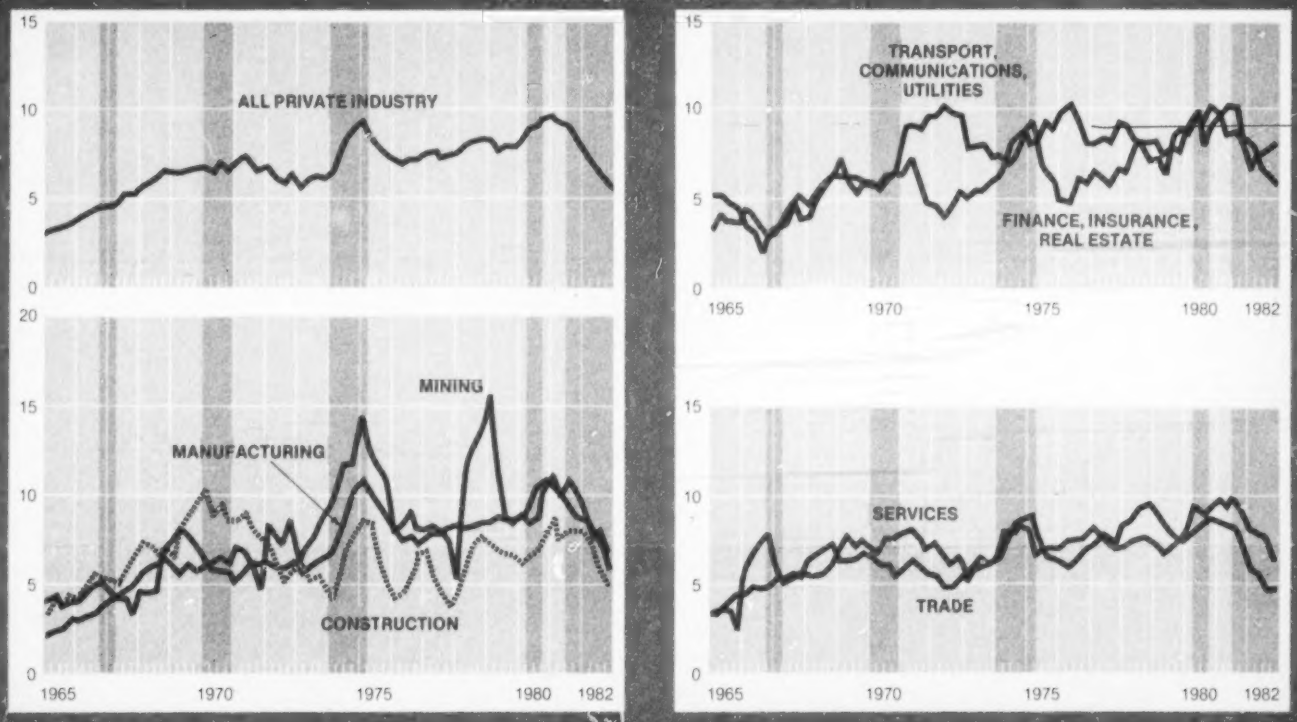
Labor Costs

Economic Road Maps
No. 1945 February, 1983

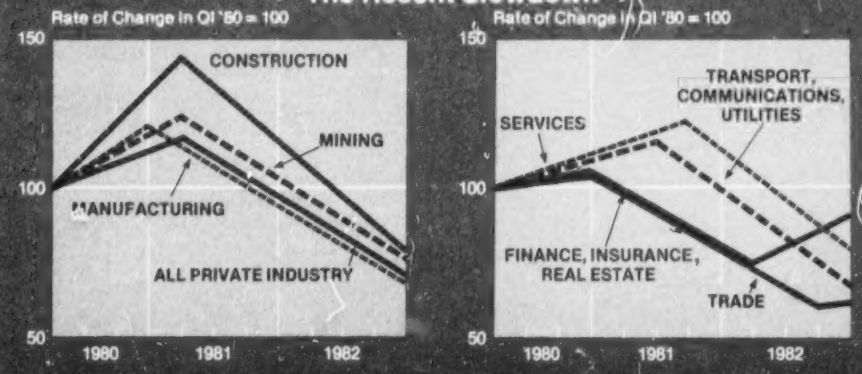
The economic slump of the past three years has had a sharp impact on wage behavior. The average hourly wage rate in private industry was rising at 10% a year in late 1980, but at barely over 5% in late 1982. This measure is standardized so that it is not influenced by changes in the composition of the work force; thus, the observed slowdown cannot be attributed simply to the fact that job losses have been most severe in relatively high-paying durable goods industries. As the charts below show, wage advances have decelerated throughout industry. The two panels at the bottom of the page relate the rate of wage change during the past three years to the rate in the first quarter of 1980—which was, in effect, the peak preceding the three-year economic slump.

Wage Trends: Percent Change in Average Hourly Wage Rate

Percent change from 4 quarters earlier



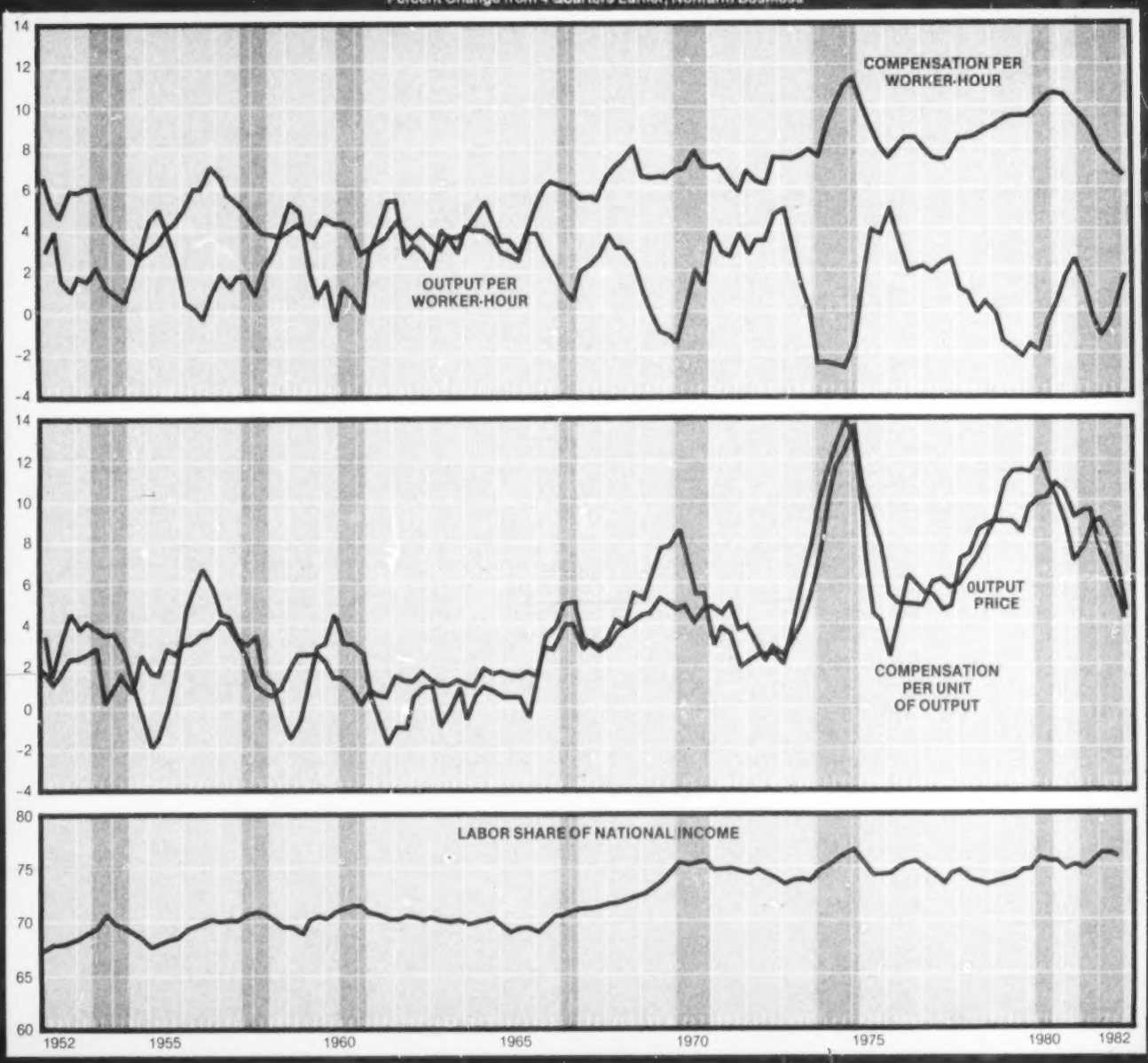
The Recent Slowdown



The key to the basic trend of prices is the trend of labor cost, because it comprises the bulk of the total cost of the "factors of production" that produce the national output. If hourly compensation (wages, salaries, fringes) rises faster than hourly output, compensation per unit of output rises. The result is a rise in the price level. The only way to avoid the price rise is for profit margins to shrink, allowing the higher per unit

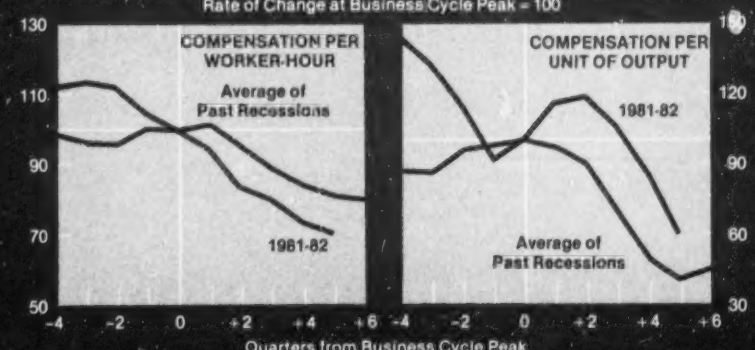
Labor Cost and Inflation

Percent Change from 4 Quarters Earlier, Nonfarm Business



Compensation and the Business Cycle

Rate of Change at Business Cycle Peak = 100



labor cost to increase the labor share of national output. In 1983, decelerating wage gains and improving productivity could make for good news about unit labor cost and prices.

Lora S. Collins

Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; The Conference Board.

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